

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08  
FRB-03 INR-07 NSAE-00 SP-02 STR-05 TRSE-00 LAB-04  
SIL-01 OMB-01 AGRE-00 DODE-00 PM-05 H-01 L-03  
NSC-05 PA-01 PRS-01 SS-15 USIA-06 /087 W  
-----127617 221941Z /43

R 221835Z DEC 77  
FM AMEMBASSY BRUSSELS  
TO SECSTATE WASHDC 3957  
INFO ALL EC CAPITALS

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USEEC

E.O.11652:N/A  
TAGS: EFIN, EEC, UK  
SUBJECT: COMMISSION DECISION ON UK CAPITAL CONTROLS

REF: BRUSSELS 19047

1. ON DECEMBER 21, THE EC COMMISSION ANNOUNCED ITS  
DECISION TO PERMIT TO THE UK, IRELAND, AND DENMARK  
DEROGATIONS FROM THEIR LEGAL COMMITMENT UNDER THE TREATY  
OF ACCESSION TO LIBERALIZE CAPITAL CONTROLS ON SECURITIES  
TRANSACTIONS BY JANUARY 1, 1979. THE UK WAS ALSO GIVEN  
A FURTHER EXTENSION OF ITS EXISTING DEROGATION FROM  
SIMILAR COMMITMENTS REGARDING DIRECT INVESTMENT AND  
CAPITAL MOVEMENTS OF A PERSONAL NATURE. HOWEVER, ALL  
THREE COUNTRIES ARE TO TAKE CERTAIN PARTIAL LIBERALIZING  
MEASURES.

2. THE WAY WAS PAVED FOR THE COMMISSION DECISION AT  
THE DECEMBER 19 FINANCE COUNCIL (SEPTTEL), WHICH, BY  
DECLINING TO GRANT MUTUAL ASSISTANCE UNDER ARTICLE 108  
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OF THE ROME TREATY (MUTUAL ASSISTANCE AND ESCAPE CLAUSE  
UNDER CONDITIONS OF BALANCE OF PAYMENTS DIFFICULTY),  
MADE POSSIBLE COMMISSION AUTHORIZATION OF "PROTECTIVE  
MEASURES" UNDER SECTION 3 OF ARTICLE 108.

3. IN EFFECT, THE COMMISSION GOT AS MUCH TOWARDS  
LIBERALIZATION AS IT COULD FROM THE NEW MEMBER STATES,

AND THE DECEMBER 19 COUNCIL ACQUIESCED IN THE DEAL THAT HAD BEEN STRUCK.

4. THE LIBERALIZING MEASURES INCLUDE:

PORTFOLIO INVESTMENT

UK AND IRELAND WILL ABOLISH 25 PERCENT SURRENDER RULE, AND RESIDENTS BORROWING FOREIGN CURRENCY TO BUY SECURITIES ISSUED BY THE EUROPEAN COMMUNITIES AND THE EIB WILL BE ABLE TO REPAY LOAN OUT OF CURRENCY BOUGHT AT THE OFFICIAL EXCHANGE RATE OVER FIVE-YEAR PERIOD.

DANISH RESIDENTS WILL BE ABLE ACQUIRE SECURITIES DEALT IN ON A STOCK EXCHANGE AND ISSUED BY INTERNATIONAL FINANCIAL INSTITUTIONS OF WHICH DENMARK IS MEMBER (INCLUDING EC COMMISSION AND EIB).

DIRECT INVESTMENT

UK WILL LIBERALIZE CONDITIONS OF GOVERNING AVAILABILITY OF OFFICIAL EXCHANGE FOR OUTWARD DIRECT INVESTMENTS UNDER THE SO-CALLED "SUPER-CRITERION": (A) WHEREAS NOW OFFICIAL EXCHANGE IS PROVIDED UP TO 250,000 POUNDS OR 50 PERCENT OF TOTAL COST OF INVESTMENT, WHICHEVER LIMITED OFFICIAL USE

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HIGHER, FORMER FIGURE INCREASED TO 500,000 POUNDS;  
(B) PERIOD FOR RECOUPING INVESTMENT COST LENGTHENED FROM 18 MONTHS TO THREE YEARS.

CAPITAL MOVEMENTS OF PERSONAL NATURE

CASH GIFTS ABROAD, 1,500 POUNDS STERLING GRANTED FOR EEC RECIPIENTS IN ADDITION TO PRESENT ANNUAL TOTAL ALLOWED PER DONOR OF 1,500 POUNDS. ALSO ADDITIONAL AMOUNTS AVAILABLE ANNUALLY FOR WEDDING GIFTS OR DOWRIES FROM PARENTS INCREASE FROM 3,600 TO 7,500 POUNDS.

5. A WELL-PLACED COMMISSION SOURCE CHARACTERIZES THESE LIBERALIZATION MEASURES AS "NOT FAR REACHING, BUT BETTER THAN NOTHING." HE NOTED THAT ALTHOUGH THE PRESENT DEROGATIONS EXTEND TO THE END OF 1978, THE COMMISSION HAS THE ABILITY TO RECALL ITS WAIVER AND REOPEN THE ISSUE DURING THE YEAR, SHOULD BALANCE OF PAYMENTS DEVELOPMENTS WARRANT. FOR INSTANCE, HE SUGGESTED, SHOULD THE UK BALANCE OF PAYMENTS CONTINUE TO SHOW THE SAME DEGREE OF STRENGTH IN 1978 AS IT HAS DURING THE SECOND HALF OF 1977, THE MATTER MIGHT WELL BE RAISED AGAIN AT

MID-YEAR.

6. COMMENT: MISSION NOTES THAT UK LIBERALIZATION MEASURES APPLYING TO CAPITAL MOVEMENTS OF A PERSONAL NATURE APPLY ONLY TO EC MEMBER STATES. IN ADDITION, ALTHOUGH THIS IS NOT CLEAR FROM THE COMMISSION PRESS RELEASE, WE ARE INFORMED THAT THE OFFICIAL DECISION REFERS TO LIBERALIZATION OF CONTROLS OVER DIRECT INVESTMENT ALSO IN TERMS APPLYING ONLY TO EC MEMBER STATES. THIS DECISION OF COURSE WOULD NOT PRECLUDE UK FROM EXTENDING THESE MEASURES OF LIBERALIZATION TO THIRD COUNTRIES AS WELL. WE UNDERSTAND THAT THE MOST IMPORTANT LIBERALIZING MEASURE ABOLISHING THE 25 PERCENT

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SIL-01 OMB-01 AGRE-00 DODE-00 PM-05 H-01 L-03  
NSC-05 PA-01 PRS-01 SS-15 USIA-06 /087 W  
-----127609 221944Z /43

R 221835Z DEC 77  
FM AMEMBASSY BRUSSELS  
TO SECSTATE WASHDC 3958  
INFO ALL EC CAPITALS

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SURRENDER REQUIREMENT IS A GLOBAL MEASURE. HINTON

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## Message Attributes

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